

“Mahindra & Mahindra Financial Services Limited
Q4 FY21 Earnings Conference Call”

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Hosted by



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MODERATOR: **MR. KUNAL SHAH – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra & Mahindra Financial Services Limited Q4 FY21 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you, sir.

Kunal Shah: Thank you Raymond and good morning everyone. This is Kunal Shah from ICICI Securities. Today, we have with us, Mr. Ramesh Iyer - Vice Chairman & Managing Director; Mr. Amit Raje - Wholetime Director and Chief Operating Officer, Digital Finance; Mr. Vivek Karve - Chief Financial Officer of the company and Group Financial Services Sector; Mr. Rajnish Agarwal - Executive VP, Operations; Mr. Dinesh Prajapati - Head, Accounts, Treasury & Corporate Affairs and Mr. Rajesh Vasudevan - Senior VP, Accounts from Mahindra Finance to discuss their Q4 FY21 and the full year FY21 earnings. So without much ado, over to you, sir.

Ramesh Iyer: Thank you and welcome everyone. It is no secret that the year went by was one of the most difficult years in the recent history, any one of us would have witnessed given the pandemic situation and if you look at the 3 quarters that went by other than the fourth quarter which we will talk about, but the three quarters went by were very dramatic three quarters starting from almost last year's March end when the lockdowns and things like that were announced, which were all an unknown of what that means will one handle and all kinds of stuff, but over a period of time, the government intervention, the ministry intervention, regulator intervention, tried and stabilized the consumer pressures and we did sail through those quarters and then the third quarter was one of its most difficult quarter given what was happening out there. But interestingly even then we had talked about the month of December how it was very different from any previous months and we had kind of made a statement then to say that if December has reflected what it was, we expect going forward things to look good and bright and we believe that the March that went by or the fourth quarter that went by was one of our best quarters at least in the last few quarters that we are talking off and very clearly March in itself was one of the best months that we have seen. From an overall perspective, whether it is from a disbursement that we had during the period or whether when we talk of collection efficiencies or when we talk of management of NPAs concerned, repossession disposals are concerned, so from every angle, we saw that the model was tested for its flexibility, the model was tested for its fundamental and we are extremely happy to say that we were able to take full advantage of the changing events of the market in the fourth quarter and did whatever that we are required to do to kind of pull out the numbers that are already with you all.

We did see in every line item, there was an action and I must remind that all of this had happened, not that the market had completely become absolutely normal across the country, but I think these are the strengths of model which are built with people who are locally engaged and hired, so who have the better and utmost understanding of what is happening

down on the ground there. Their connections with the dealers and the connection with the local administration and with the consumer have all put together actually added to the outcome of the results that is being clearly seen. We did resort to an aggressive stand on negotiating with customer and settling their accounts rather than allowing them extra time if they didn't feel that they would be able to come out of this so very easily, and similarly even when we repossess vehicles etc., we did not want to hold them in stock for too long and we have disposed of vehicles and as you know we also moved to bad debt provisioning of contracts which are in of a certain age and above. Instead of holding it and negotiating, we felt it is better to make a provision and after all we can follow up and collect from the customer. So we have taken some aggressive stand on negotiating and terminating contracts with customers and as well as bad debt provisioning and you would see certain increase in those and I would believe those are one-time cleaning mechanism as well, but overall it has helped in controlling the asset quality. And also we are very happy to report that if you look at an absolute value of gross NPA of this March ending versus March 20 ending, we are almost at the same level in terms of the overall gross NPA numbers are concerned. But said that, we did see return of sentiments back to normalcy while there are certain segments of people who continue not to buy vehicle whether they are from the school bus segment, whether from the tourism segment, whether from the taxi aggregator segment, people carrier segment, because these are the ones which have not returned to normalcy. Even what buoyancy we have seen in heavy commercial vehicle, these are more fleet operators adding capacity, but sub5 vehicle owner etc. still not come back to buying vehicles because they did not see sufficient load, whereas for all segments uniformly what we have seen is, while the acquisition cost of an asset has remained high, their operating cost has also gone up, but unfortunately it has not been matched with their increased revenue either through freight increase or through per passenger fair increase and therefore the segment which are Sub5 vehicle, sub10 vehicle operators have not really resorted to big buy. But nevertheless we did see some good buoyancy in the tractor demand, we did see good buoyancy in the car demand, we did see demand in utility vehicles and pre-owned vehicle remained aggressive where people did want to buy pre-owned vehicle, but the supply side also remained.

As I said, even from the OEM side, the pressure was on. They could not make vehicles available, even though it was better what we saw may be a quarter before, but still their overall supply position did not substantially improve as otherwise our own volumes could have been even little higher than where it ended. But on an overall basis, we felt that every line activity was well attended to and we did get benefit of all of that and looking at where we were and looking more little into what suddenly started to happen post March, we also felt it necessarily to continue with our aggressive stand on additional provisioning and we have kind of gone ahead and maintained the overlay provisioning at that elevated level. We have also kind of made an additional provision as we would think will be required to bring it below net 4% and the reason to bring it to below 4% is also for a very clear reason that the pandemic return has been little more aggressive. It has been little more widespread across the country and is also little deeper in pocket and therefore it could take a month or two before we can say things are getting to some normalcy and these segment of customer possibly would remain under pressure for another couple of quarters before they get back to their normal actions and

activity. So we only thought it prudent to make this additional provision and at every stage that we have been having discussions with the regulator, etc., the feeling always we carried was for a company like us with a very high capital adequacy and the nature of business that we are in. The expectation was could we not make little higher provision and keep it to sub 4% level and we also thought it why not if we can and because after all these are only provisions and as things starts to change at the market place, we could always get a right back of all of this, but at least we reflect the worst scenario if you may call from where we could be and therefore we were more than willing to go ahead and take that kind of a position and that is also kind of we have done and all of you would definitely remember at every stage asking as a question on, is your coverage adequate, should you not make a higher coverage, should you not increase your coverage.

So in a way, now we have gone to a coverage ratio which is close to about 60%, whereas the ECL model demands only at about 32-35% kind of a requirement, so we feel we are substantially and adequately covered going into the future. And clearly we see sentiments did return back to positive in March, but it is now subdued, definitely subdued from customer side. Even I would say, it is a subdued sentiment from our local employees at the branch level because in the last March-April situation, first of all we were all caught to an unknown and we were just going along the way everyone was trying to do. But over a period of understanding what the whole thing is and the rural was not as impacted then, but in this round, we have seen it spread across the country and therefore we do feel our own employees are also wanting to be little more cautious and careful. So we strongly think that this quarter would definitely be a very subdued quarter if you were to look at the on ground reality and once things starts to improve, it does take a month or so, so therefore in the first half we would see the activity levels remaining low.

We also believe that the supply side from the OEMs once more may start choking because their own supply chains could be under pressure because as I said and I keep repeating this is across the country, therefore the SME segment who are the component manufacturers and etc., will also come under some pressure from their labor force not being there, etc., and good news is that unlike in the first round, the first quarter of last year, etc., it was a total lockdown. In this round, they are trying to keep the economy going, they are not making it into a total lockdown, but the sentiments definitely are much lower than what it was in the first quarter of last year because they didn't have to face this situation in the district levels or at the rural level, but they are now currently facing a similar situation. But things are on ground, ready to take off if you really ask me. I mean, if you look at the infra front, the road projects, the mining, all of them were almost commencing to happen, tendering out was done, contracting was being done, so it was almost ready to happen and then this comes and halts it for a minute, but I would think if we have patience to wait for a quarter or so, we would see those activity bounce back with pent up demand coming, so the festival season and onwards could be a very, very exciting time to look at even during the year.

Similarly, on the agri front, I think the April crop has been pretty good, so therefore the cash flow from agri will be very, very exciting and that is the silver line in the whole thing that the

farming community would continue to do well and we don't see a pressure from that side and at least very early predictions of monsoon is also kind of relatively average plus or at least good and if that was to happen, we would very strongly continue to bet that post monsoon the festival season ending up to March will be a very, very exciting time to look at. So we still hold our position of growth coming back to normalcy and getting to some aggressive growth position post September. From an asset quality perspective, I think we would also continue to see improvement to asset quality. We are conscious of the fact that our AUM has degrown during this period. That is also bringing an additional impact on the gross NPA position, but I think that is a matter of time, once the disbursement starts to pick up, the AUM will start to grow. We are all geared for the growth. We have added 150 odd branches during this quarter which will all get active during the year. We will continue to focus on the cost control, but our happiness will be when some of the cost which has not happened because of the pandemic comes back to reality because that is going to drive the growth. If there is a growth there will be some cost which will come in, but the variable cost will remain under control. We have taken some very clear actions where we don't believe that the cost will jump back to 3% plus level like in the past. It will stay put at around 2.3, 2.4, or may be 2.5 depending upon the volume of business. That is what we very strongly think.

As I said, asset quality improvement would only be better going forward from here, you will start seeing further improvement from here and we are adequately provided, so therefore the pressure on the P&L will also substantially reduce having taken that kind of a stand. We do believe that we want to continue maintain the net 4% level of NPA on an annual basis and we will continue to put all our efforts to first bring down the gross NPA as well as bring in the asset growth to the extent the market allows us and the third, definitely if there is a gap, we will if required to make any kind of an additional provision, a stand that we will also take, but definitely on an annual basis, we would control and keep the net NPA hovering at the same level and not inch beyond this. We also see not too much of competitive pressure, but definitely there are players around in different pockets, who are trying to enter into some tractor financing, they are trying to enter into UV financing, three-wheeler financing. Everyone is looking for assets because whichever line of business any one is, are not able to grow in that line of business sufficiently and therefore are looking for different lines of business activity possibility. In the same breath, we are also looking at what are the alternate possibility and that is how we have set up our Digital FinCo which will exclusively operate for small ticket loans for the market and will offer small ticket loans ranging from personal loans to consumer durables to all of those products.

To start with largely to our existing customer, we have talked about it in the past, but if that is what we do well by ensuring that we use the data well, by ensuring the digital solutions are provided and by ensuring reaching out to all those customers and meeting their small ticket needs, opens up a large market for us to even look at customer beyond our customer, so we believe that is a good alternative of growth for us. We are still not looking at loan against property as the area that we are very comfortable to be in, so therefore we will not want to look at that area for growth. We still think that there is sufficient headroom even in the vehicle space for us to grow and while we have definitely lost some market share in the tractor

business, but again that was more a conscious decision when we decided in certain pockets to go slow and we didn't find some other alternate competitors have come in and taken some market share, but I think with our relationship at the dealerships, with the OEMs and with the local team and the consumer out there and with a large customer base, once things normalize, we don't find what we lost is a huge gap to be not able to bridge back. But in as far as cars are concerned, as far as UVs are concerned, we have maintained or slightly grown our market share.

So overall I think it has been a conscious approach during the year. We have taken whenever the window of opportunity have opened, we have been able to capitalize on that and we continue to believe that at least for the two quarters, our approach will still be little more quality focused and not growth chasing focus because we don't see that as an opening up of an immediate possibility. But nevertheless we are ready to embark on the growth with all resources put in place and well all ready to take it up on that basis. So we think as we close the year 22 going forward, you will see very different growth trajectory and a different quality of the book and we believe we have done enough of required cleaning as well as we have done enough of the resource provision and relationship building and the model has been well tested for its flexibility and its fundamental to be able to gain from that opportunity locally.

That is where we are and therefore summarily, we would be conscious for the first two quarters while we will keep our eyes continuously focused on the changing market scenario and the emerging opportunity and would capitalize on it as things open up. So is true with all our subsidiary businesses, the rural housing business has done equally well. They also took a conscious view of asset quality correction. In the previous year, they have been slow on their disbursements and I think as they close the year, they also had substantially brought correction to their asset quality and they are adequately capitalized and with sufficient liquidity, they would also be embarking on the growth journey post the monsoon from this year. The insurance broking continues to remain a very strategic business and they continue to grow in line with the growth of industry and growth of financial services sector business of ours and they get the benefit of that growth for sure.

The asset management company which is again a small entity for us, but as maintained its asset book and has been able to provide returns to the investors as promised and therefore we will continue to focus on that business from retailing out in that geography by coming out with products for that geography, but that is still a small business as far as we are concerned. So I think all three subsidiaries in India are doing well for us, have embarked on the promised journey and I think even they would start showing growth and improved profitability over the period of time. Our liquidity position continues to remain very strong. We are holding just of partly 3 months plus to meet any kind of eventuality going forward. Our own view is that the interest rates have possibly come off the maximum. It may not probably reduce any further from here, but if at all any during the year, it may inch up a little, but that is not a clear visibility, but reduction from here does not seem to be the truth, but liquidity is sufficiently available and as you see capital is adequate and therefore overall, we are ready for growth and we do believe that current pressure is not a permanent pressure for too long, may get corrected

in the next couple of months and then after monsoon, one would once again see return of growth in that market. So I will stop there and invite questions from all of you. Over to you, Kunal. Thank you so much for joining this call and we will now be ready to take all your questions.

- Kunal Shah:** Yes, Raymond, we can take the questions now.
- Moderator:** We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Elara. Please go ahead.
- Mahrukh Adajania:** I have a couple of questions, firstly on your disbursals for 4Q, some of the disbursals like say in, utility vehicles are lower even than 2Q and of course you have declined sequentially also, so the year-on-year growth is understandable, but what happened during the quarter, why were 4Q disbursals lower than 3Q?
- Ramesh Iyer:** No, if you see utility vehicle, clearly it is an OEM issue. They couldn't make vehicle sufficiently available and therefore obviously we lost volume and second is, some of the product that were made available at least from the Mahindra staple where vehicle like Thar etc., which were more an urbanish vehicle where we didn't have enough participation. So clearly these are the two reason, one is overall supply was lower and that impacts our volume directly and little supply that was available were from certain product lines which are more urbanish in nature and as you know it is a big waiting list out there and therefore financing was not a participation in that product. So these are the real two reasons for the utility vehicle.
- Mahrukh Adajania:** And what would be the collection efficiency in March compared to say last March and then if you could give some collection efficiency color even for February and January?
- Ramesh Iyer:** No, if you look at three months, Jan, Feb, March, this year and last year Jan, Feb, March, I think we were close to 100 or little lower 100% collection efficiency. Standalone March, truly not various reason, last year March, the moratorium had already kicked in and therefore the demand itself reduced, but nevertheless last March was 111% after adjusting for the moratorium contract and this March in spite of no moratorium, we were at 109-110% collection efficiency.
- Mahrukh Adajania:** And just in terms of your provisioning, so of course you did mention about it in your opening comment, but to keep NPAs below 4%, would it mean that, I mean what would be the incremental provisioning now on Stage-III? Will it revert back to 37%, 38% or?
- Ramesh Iyer:** **22.14(Inaudible)** from 55-58% coverage come back to 40%, what is your exact question?
- Mahrukh Adajania:** The question is that now sir, you obviously made a catch-up provision of 13 billion in the fourth quarter, but going ahead, say in the next 2 to 3 quarters, on any incremental stage 3 loans, what would be the rate of provisioning?

Ramesh Iyer: As I said, 4% would be annual **22.48 (Inaudible)** will go up because of the economic activity, forget the current pandemic situation, even on a normal basis. So we will stay with whatever is the reality of the NPA during those quarters and make necessary correction because the NPA itself will get corrected in the third and fourth quarter and if that leaves the gap to reach 4% if there is any, then we would make those provision if required.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Sir, couple of questions, one is, on this new sort of lending opportunity that you identified in digital, I just wanted to understand what is our right to win in this segment and what exactly is the target addressable market that we are looking at and if you could give some sort of strategic direction as to how big this could be in the next 3 to 5 years, so how we sort of select the segment, what is our right to win and what is our aspiration in this segment. So that is question number one? And second is on, could you give the write-off numbers for the quarter and for the year? Those were two questions?

Ramesh Iyer: As far as right to win in digital is concerned, for any business for that matter, the right to win is if you meet customer expectation. So we have very clearly understood the needs of the rural and semi-urban customer to start with, which is their small ticket loan requirement to meet some of their emerging requirements, whether it is a wedding in the family, whether it is any health related family fund requirement for the health or for that matter during the agri season whether for them to buy crop and fertilizers, so there are various needs that have been identified and the source for those loans in the past, these customers have been resorting to a local borrowing from the family or from the trading community or some of them even go to a money lender. We have also seen some of them don't pay installments to banks or finance company and use that money for these purposes, so what we have started to initially go into is to very large existing customer with a phenomenally good track record of at least who have repaid 12 months, 15 months, 18 months of their past loan and therefore whatever exposure that we may take is not going to overall increase the exposure on those customer. So clearly that is a product designing that will enable that.

The second right to win comes from your ability to provide them that loan on or just around the time when they actually need it and not do it when they don't need it. So therefore, it is extremely important to have a very high level of local knowledge to understand when and what kind of product is required. The third is, provide them with convenience and comfort and not hassle them through the current process that they need to go through the banking system if they were to take such personal loans and which is where we score over the local currently existing organized system if you may call. And the fourth is, the cost of operations and cost of collections have to be kept under control to be able to make all the money that we are planning to make through this process and therefore use digital and paperless approaches and use the available data while designing product as well as while deciding credit and in wherever required, this will continue to remain to an extent 'phy-gital' model because not everyone would be able to pay only through digital means, not everyone will come and borrow money

only through app based, but wherever there is a need for partnering with a physical entity is what will be available through Mahindra Finances branch team which comes as a very natural advantage having build such a large branch franchise. So put all of this together is what is going to differentiate us from someone else who will now want to come and start the same there. So we want to be ahead of others to reach that market.

While doing that digital being a very uniform possibility it will also be made available to the semi-urban and urban customer whosoever wants to kind of get into these kind of loan requirement for consumer durables and those kind of stock, which very clearly tells us that we have a game in hand and we are going into that market ahead of others and that is going to position us to be able to take advantage of what we wanting to do and which is where we created it as an independent internal vertical which will run like a company headed by a COO, unfortunately he couldn't be in the call so far, but he would possibly join in as well, but he is going to lead it and ensure that the direction is taken. Aspirationally, we believe that in the 3 years' time this business can get to and it won't built a large AUM because this will normally be short ticket loans which will be 12 months or 18 months or may be less than 12 months as well, but that doesn't matter, but we will have a disbursement target to start with may be 5000, but it does in the 3 years' time capable of going beyond 15,000-20,000 crores and that is the size of the possibility, that is the size of our current large customer base and which will build in the next 3 years and we think that it will build a very strong parallel balance sheet which will not just add to the overall growth of Mahindra Finance, but also in some form will help retain customer and provide the customer when they look for vehicles after they kind of go through this process of even the small ticket loan.

Dhaval Gada:

Sir, if I may ask a followup, what is the level of PL on the existing customer base if you were able to identify what kind of opportunity we have on the existing customer itself?

Ramesh Iyer:

No, now itself when we tested it out in the last about one year or so, I think we are very easily able to do, I am talking in terms of number of customers, we are able to scale without going to all India basis, at least 5-7 customers we have already tested per month basis. So it would scale if we provide perfect product, proper structure and resource around that, I think this has phenomenal capability of going up to upward of 50,000 customers to start with and can scale up even much larger because don't forget that we already have about 2.5 million customers whom we are servicing and every year we add close to 7.5 lakh to 8 lakh customer and that is the population which is in-house available to straight away start with plus they have their own guarantors who are independent and if you take even 50% of them is independent guarantors who have good capability that adds up to another 2-3 million, so I don't think demand is a dearth, number of customer is a dearth, I think we have now put in a proper technology, proper resource and right product decision making and clear team focusing on it and that is where the opportunity is.

Dhaval Gada:

Sir, my question was actually on the existing customers on the bureau, what is the kind of PL that is there on the existing, since you said that these customers take loan from other financiers as well, so the question was actually what is the kind of outstanding that is sitting on the

existing, just trying to understand, is it a new market that you are creating or is it an existing market?

Ramesh Iyer: I won't say it is a completely new market. There are people who would have taken, but as I told you many of them would have been experienced in taking this loan, not necessarily may have a bureau record already because they would have taken from their family, local traders, etc., so they will still be 10-15% of the customers who originally also add a bureau score when they took loan from us for cars, etc., might have taken some personal loans, so I don't think more than 10-15% of that population would have taken from an organized sector any kind of a loan and that is what we see. The other 85% is what we see as an opportunity.

Dhaval Gada: And sir, the write-off numbers that?

Dinesh Prajapati: Dhaval, the write-off number for the quarter is, both termination loss and bad debt put together is 629 crores.

Vishal Agarwal: Dhaval, this is part of the slide, page number 34 provides the details.

Moderator: Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: I have two questions, the first one is, this quarter we have run down some of our Stage-I and Stage-II overlay provisions with the result that the provision as a percentage of business assets in both the categories have actually come down, what is your assessment and reasoning behind this? That is my first question, my second question is, at a standalone level, the employee expenses are up about 32% year-on-year, how much of this is attributable say to collection related incentives, etc., and what should be the trend that we should expect going forward? That is all from my side? Thank you, sir

Ramesh Iyer: Let me take the second one because, last year since you are comparing year to year, last year we had a write-back in that particular account, because we had made higher provision for incentives and that was no longer required to be maintained and therefore we had reversed those provision and therefore when you compare last year to this year, the growth seems to be higher, but as otherwise, there has not been a substantial growth to employee cost because even during the year, we have not given very high increment, we had about given 1.25% for the fourth quarter, that is 5-year annual, but it was only given for the fourth quarter, so there is truly if you would remove the provision reversal that took place since the last year and if we were to make a comparison, the growth would not be very, very high and we have not added too many people, so therefore may be little more detail can be provided by Vishal or somebody offline, but largely that is one single reason which is causing that particular difference. So for us the Stage-I, Stage-II, the reversal that you are talking off, I think it is also kind of arising out of reset of some model and may be Rajesh or Dinesh, if somebody can explain to you little more correctly in technical terms, but Stage-I, Stage-II is also arising out of the reset. So Rajesh, you are there on the call or Vivek or anybody?

Vivek Karve: Yes, I can take that. So you are right Stage-I as well as Stage-II. So what we have done is, we have done refresh of the ECL model and when we do the refresh of the ECL model, both based on the historical data as well as forward looking data, given the fact that agriculture outlook is far better as compared to what it was in the past. Some of **(Inaudible) 34.15** we have improved Karthik and especially in Stage-II because the number has come down, the value of Stage-II assets have come down from December to March, there is also write-back on account of that. So these are the two primary reasons why we see a write-back in the fourth quarter.

Karthik Chellappa: So the way I should understand is the Stage-II asset that you have right now of about 11% provision and Stage-I of about 0.8% is in line with your ECL models post the refreshment?

Ramesh Iyer: That is right.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Reliance Securities. Please go ahead.

Abhijit Tibrewal: Again, going back to the disbursement, sir, initially you explained that some of the supply side issues also led to lower disbursements in auto and utility vehicles, but how do we explain the lower disbursements in commercial vehicles and construction equipment, I mean if we look at least the auto volumes, they suggest there has been a good growth during the quarter especially in M&HCVs, that is my first question.

Ramesh Iyer: Definitely, M&HCV volumes have been good, but as I told right at my commentary by large fleet operators etc. who are not our consumers, so we have not been saying large fleet operators because their need both in terms of quantum of loan, period of loan, rate of loan it is not something that we are participating in and we want to take benefit of the growth that we have seen and we are conscious of that fact and we don't want to shift our strategies from Sub 5, 10 vehicle owner to a large fleet operator financing.

Abhijit Tibrewal: Sir, the other question that I had was around the branch expansion strategy, so you have added close to around 140 branches during the quarter and this look specially stark given that I mean over the last two quarters, you had actually reduced your branch count by around 80 branches and even if we look at the branch addition during the quarter, I see they are largely concentrated in the states of UP, MP and Rajasthan close to about 65-70% of your new branches have come up in these three states, so how do you look at, I mean expansion of branches in these geographies, otherwise if you can give some kind of a geographical color or some thought process that has gone into opening newer branches specially when we were kind of rationalizing our branches over the last two quarters?

Ramesh Iyer: So clearly, our branch opening is very simple. We look at size of a particular branch, how many customers are we handling and the distance of the customer from the branch level and therefore cost of operations and the efficiency that you would get by that approach versus splitting the branch and opening more branch and be more closer to customer. The second that we look always is that what is the emerging potential in that area where your consumers are

and if you were to have a branch, is there a potential and opportunity grow little more. The third we look for is, what are the OEMs plan in terms of penetrating and what are they expecting from us and is there a reason for us to participate in that expansion program of the OEM and partner them and go deeper. The fourth, the closing of a branch comes from similar approach, to say that if the branch any more required in the location in which we are because we would have originally started that branch with an idea to do, let us say a tractor business somewhere. Then over a period of time, we have found that area has become multiproduct need and may not be driven only by a single product. Now, if your branch is located from where only a single product attention can be higher, then we have relocated the branch. So you must just look at our overall program from some branches would shut and get relocated, some branches split and more branches would get for the reasons I explained. So just one more example would be Maruti is very clearly looking at going deeper into rural pockets and they have a very ambitious plan of growing from those smaller outlets which are in deep rural pocket. Now, we are their natural partner to be specific on that **(Inaudible) 39.01**. Now the states that were MP, UP, Rajasthan whatever, are all large states and **39.11 (Inaudible)** per branch already has become too large and the area that the branch needs to cover also has become too vast, so therefore we have added our additional branches to be more closer to customer, those are the reasons and once you have those kind of more branches and look at much wider coverage and a larger customer base, then your natural growth of your ability to do higher disbursement begins to happen and you have a more closer connect with the customer when it comes to even recovery.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe: We ended the year with ROA of 0.4% and return on net worth of around 2.5%, I believe there were some of the other NBFCs who are operating in very similar segments are yet to report the results, but if I look at consensus numbers to go by, I guess the market is expecting at least 1% ROA and a double digit ROE from them, so just trying to understand as to what is it that they are doing differently or we are doing differently and why there is such a stark difference in performance?

Ramesh Iyer: Very simply Nischint, look at, we have made this 1320 crores of additional provision to bring it to sub 4%, right, if that was not to happen, then I think we would have met all those expectations in some form. But the reason to bring it also below 4% and we know for a fact that this business in the **40.42 (Inaudible)** because these are seasonal businesses, these are earn and pay businesses and if we go through that sometime of these kind of pressure and in the past we have had on its own and net 4% and now we are by additional provision brought it to 4%. That is the only difference between the model that we run versus someone else's run, but as go into the future, things starts to correct itself, if market improves and our asset growth comes back. But when we actually release the provision that we have made already, and you will suddenly see a jump in it, so we are willing to go through looking at a very uncertain **(Inaudible) 41.34** gone up and we have not been able to gear the capital completely **(Inaudible) 41.45** and once the growth come back to somewhat and if the growth comes back

(Inaudible) 41.47. The capital is large now and we have not been able to fully utilize it well, because the growth is still not there, so once the growth has to come back to some normalcy as well as we know in that market once growth comes to normalcy, the collection on its own also improves substantially. That will bring down the gross NPA as well and the two together will push up the ROE for the ROE to be better. Otherwise, currently it is a conscious decision to make this extra provision looking a little unknown into the future and once things starts to improve, even the additional provisions made can get little released.

Nischint Chawathe: And just curious, what was the feedback at the ground for the last 20 odd days of this month?

Ramesh Iyer: The feedback of last 20 days has been very mixed feeling, I think in the first time I heard our own employees saying they and their families are wanting to be more careful from the situation which was not what we heard let us say, one year back when the pandemic, it didn't reach rural and they were looking at from a distance from there to say what is the real problem, we don't face it here, but whereas in this round, I think we have been able to see our own people going through this pressure, so that has been one very strong feedback to say that we would also be little careful kind of a situation. So I would expect clearly that not every dealership is going to be up and running, not every branch is going to up and running for at least for another one month or so. The second feedback that we get is that while there has been not a total lockdown announced, but every state is contemplating, going through some administrative controls and not allow things to happen the original way. So that is the other feedback that things will slow down a little which is going to have some impact on the contracting segment, the labor may not be fully available for job on the ground, is the third feedback that we surely get, but the positive feedback that we get is, customer have the money, the agri flow has been very good. Even the infra contracting segment has already received the contracts etc., and therefore was to begin the activity, but that has been now slightly put on hold, so they say in a month or two as things settle down, it will really open up with great speed and with a spurt and therefore the demand could really spurt from then on. So overall that is the sense and feeling that we get. From a customer side, the feeling is we have the money, but we would like to hold it for some time, give us some time, let us see how things pan out and then we will start participating again either buying or even discharging liabilities.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Just to dwell again on the yearly review that takes place on LGDs and PDs wherein your PCR needs determined on Stage-I and Stage-II you highlighted what was the levels that came out of that rerun of the LGDs and PDs, but on Stage-III in last Q4, may be we thought that PCR needs to be hiked by at least 30% so we brought it up from 30% to around 40% levels, what is the current requirement based on the reason that you have done on Stage-III, so I am asking is you intent to keep the net NPAs at 4% level, so if at all going ahead, there are tailwinds along with the growth that persists, are we only going to see provision write-backs with the absence of credit cost completely?

Vivek Karve: I can take this question, Vivek here. So as you rightly pointed out, we **46.59 (Inaudible)** bottom of LGD calculation, so we have basically continued with that particular stances, although the pristine LGD calculation is a number which is lower than the 40% and going forward, our idea is to maintain the Net NPA below 4% at an annual level. So if the GNPA performance is favorable, it will provide us an opportunity to do.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir, referring to slide 32 of our presentation, sir, the number which you mentioned on moratorium availed contracts, which is around 14,70,000 odd and the number of contracts from where we received nil payments have gone as high as 2,70,000 odd which quarter-on-quarter I think has, if I just put it in percentage term, has risen from 6% last quarter to 19% and while if I look at the table above that the collection efficiency for past 3 months have been either closer to 100% or higher than 100%, so what has happened with this moratorium availed contracts, where they critical even before the COVID period, how was the behavior like, where they in the Stage-II almost in the kind of right to fall into Stage-III, so what has happened, what has been the customer behavior prior to COVID as well because this number is only going higher whereas the collection efficiency month on month is only improving?

Ramesh Iyer: No, so first let me clarify to you that they could not have been a poor quality customer before anyways because moratorium would not have been given if they were already a delinquent customer. So that is not right, so they were regular customer when the moratorium was definitely offered to them. Now, whatever slides that you are referring to, Vishal or Dinesh can somebody take this.

Vivek Karve: I can take this, so I think we owe a clarification to you. If you read this, 14,73,094 are those customers who always **(Inaudible) 49.38** amount which fell down in Q4. So out of this 14,73,000 customers, 47,384 did not make any payment in Q4, so that the first line of that table. The second line, you have to read like this, out of this 14,73,000 customers, 2,74,061 customers had not paid any amount till September and out of this 270,000 customers, there are 37,263 customers who has not paid any amount in H2 also. So that is how you need to read that table.

Shweta Daptardar: Sir, but again I am slightly confused, I continue to remain confused because there is a few mentioned that the amount due in Q4 and the total number of contracts for 14,70,000, but if I look Q4 collection efficiency, wherein the denominators, current month demand due for the month, then that number is still, I understand it is for that particular month, but the collection efficiency still looks 100% whereas we still have customers which you rightly mentioned in second half did not make any payment at all which is around say, 3%?

Vivek Karve: Shweta, the collection efficiency is calculated, the total collection is the **(Inaudible) 51.12**.

Dinesh Prajapati: Shweta, we can take offline discussion on this.

Vivek Karve: We can explain everything to you.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Sorry for being a bit repetitive, but it is regarding the decision to bring the net NPAs below 4% and you do mention that it was based on the RBI's expectation, so if one reads between the line, is it fair to say that this could be one of the softer requirements by the regulator if they were to kind of consider you for a banking license applicant or it has absolutely no relevance or no read through from that perspective, sir?

Ramesh Iyer: Honestly speaking, I have absolutely no clue to read into their minds or your minds. It is very difficult for me to answer either way, but I would like to be more clearer when we say RBI expectation, they all look at the market, they look at our capital position, they look at our past approaches, so it is natural expectation to say that good brand like Mahindra, a large company like us, very rural focused company with high capital adequacy, they will always want to discuss, deliberate and say, don't you want to make higher provision and keep it our net NPA at lower levels, whatever. Now, we will not want to just do it if somebody's expectation is or unless we also somewhere believe to say that what is wrong if you make some additional provision after all it is only a provision and if the market conditions were to improve, it helps you release back the provision whenever that situation does arrive. So I have always said even in the past, that provision should be differentiated from an eventual credit loss that the company will incur. If we make some additional provision, it is fair to have the provision and all of us are going through so much of unknown. I don't think all of us, whatever we are saying things may change in a month or two, etc., is more whatever we read, we hear, etc., but that is not a clear, full understanding of the pandemic situation, how it is going to pan out or it could be faster than we expect and then things can start to change, but the overall market condition seems to be a little confused and sentiments remain to be little low. So we have taken this decision to do it and which is why I said this will be an annual feature and not every quarter feature and you are right, two quarters down the line, market conditions may change, collections may improve, the customer cash flows could be substantially better and the gross NPA comes down, then the provision may no longer be required also.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir, one reason why you said was the 4% and you also mentioned cleaning up the book, so I just wanted to know whether given the fact that Mahindra always get in the customers whose ability may be a problem, but willingness is never a problem, is there something which you do strategically going forward which would shift the business away from the current set of customers and whether the digital also would include two-wheeler loans that we had spoken about earlier?

Ramesh Iyer: So the digital will include two-wheeler loan, but we are not yet started that, but definitely the two-wheeler OEMs, the two-wheeler dealers and as I have said in the past, many of the dealerships that we work across the country are also two-wheeler dealers, so they are continuously in dialogue with us to say do you want to start, when will you start kind of a thing. So definitely that is in our radar, but may not be very immediate, but we always consider two-wheeler as in some form of personal loan only because repossessing those assets etc., are not the true answer to success there. So the answer is yes, two-wheeler will be looked at. So far as whether the model is undergoing a change, etc., I think when I used the term cleaning up, it was more in relation to the bad debts and termination losses that we have incurred. We said we have reviewed all those customers who are a little high aged and rather than following up and trying to pick up monthly installments etc., it was felt more prudent to negotiate with the customer and settle the accounts with them rather than invest any cost of recovery over a long period of time. Similarly, on the bad debts, wherever we wanted to take back the vehicles, sell of the vehicle, we have done it aggressively rather than holding it and then delaying those action. It was not from the provisioning perspective, we continued to work with earn and pay segment, we continued to work in the rural market, we continued to work with customer who bring in 15%, 20%, 25% margin money. We continued to work with customer who will go through the seasonal impact of the agri cash flows and infra cash flow and our branches are geared to only handle those kind of requirements and our people who are recruited locally understand this well. So I want to be extremely clear to say that the model is not undergoing any change nor are we seeing a substantial change in the customer segment and sentiments from that segment. So we are not shifting our gear to say, let us go to high end customer and drop these customers, no that is not what we are saying at all. The cleaning up comes from, I repeat, from the repositions, disposals and settlement with the aging customer by offering certain concession and closing the contract.

Moderator: Thank you. The next question is from Anirvan Sarkar from Principal India. Please go ahead.

Anirvan Sarkar: So my question is regarding your movement in Stage III assets. If I look at the trend in your earlier years, traditionally, Mahindra Finance has done phenomenal recoveries in the fourth quarter every year, which usually led to an absolute decline in Stage III assets and even that decline has been in the range of anywhere between 15% to 20% on a sequential basis and given your commentary in the last quarter where you said that you have not restructured any of your customers because they did not want to be restructured and they were confident of being able to repay in this quarter, we would have expected a similar decline, but that is not the case here, so either recoveries have not happened to the extent that we thought would happen or slippages have been higher than we expected, what is exactly the situation here?

Ramesh Iyer: I didn't understand, why you are saying decline has not happened in terms of gross NPA, is that what you are saying?

Anirvan Sarkar: Yes, if I talk of the absolute quantum?

- Ramesh Iyer:** So if you look at December end, if I am not wrong, I don't have the figure ready, but I think we were gross NPA of 6600 or something like that and that has come down to something like 5700.
- Anirvan Sarkar:** I have looked at the wrong number, but my question remains that on the recovery front, so what exactly is, have we recovered to the extent that you thought you would and regarding slippages what has been the situation? Has it been according to the expectation or how has it been like?
- Ramesh Iyer:** In my opinion, it has been right, I said in the initial commentary also, it actually met or surpassed our expectation, because as I said March standalone the collection efficiency was 109-110% and if you look at each bucket, whether it is in bucket one, bucket two or bucket three, in every bucket we have seen reversal and the size coming down which means the backward flow has been good and even though the gross NPA still at 8.8, it is also caused by the asset not growing. In an absolute term, if you look at our gross NPA 31st March now and 31st March 2020, we are exactly at the same number. We are more than happy with what has happened even given all the pressures that the market was going through. I think fourth quarter has definitely served us what we were looking for or in fact it has been slightly better than what our expectations would have been.
- Moderator:** Thank you. We will be able to take the last two questions. We take the next question from the line of Aditya Jain from Citi Group. Please go ahead.
- Aditya Jain:** Just a clarification on the ECL model. Is my understanding is right that you more or less reverted to the pre-COVID PD and LGD levels in Stage-I, II, III and then the overlay is completely outside to make certain assumptions, but in addition to that you are making the overlay which is completely management discretion, is that right?
- Ramesh Iyer:** That is right.
- Dinesh Prajapati:** I just thought I will share here. There is a continuity of some percentage of overlay over and above the LGD and PD ratio, so if you see the breakdown of the overall overlay, we continue to have around 966 crores as an overlay and there is an additional provision which was made as per the RBI expectation to bring the net NPA below 4% of 1320 crores.
- Aditya Jain:** Just a clarification on the cost, so within the 2.5% cost to asset guidance, but it is still at 25% Q-o-Q, while disbursements are low at Q-o-Q, so are there any one-offs or is there any other factor which is guiding the sequential increase?
- Dinesh Prajapati:** In current quarter, there are few one-off, but that is very small, negligible number to share, one is because of the Supreme Court order there is an interest on interest provision around 32 crores worth of provision has been done in the quarter and obviously because of these drive of settlement and the repossession activity which was done in the current quarter higher. To that extent, there was an incremental higher cost incurred on account of that.

- Moderator:** Thank you. We will be able to take one last question. We take the last question from the line of Umang Shah from HSBC Securities. Please go ahead.
- Umang Shah:** Sir, I just have one question on the rural housing subsidiary, I mean it has been 5 consecutive years where we have had net NPAs of 10% or above, should one assume that is the nature of the business and that is how elevated the NPAs will continue to remain going forward as well?
- Ramesh Iyer:** While it has remained at the level, our belief is that the gross NPA of this business may be 6-7% and not net at this level and as I have been repeatedly saying we continue to have 40% of the book or so which is coming from Maharashtra and it is no secret for all of us that Maharashtra has not been going through a great time continuously for more than 3 years or so. We are only now seeing after a good crop, things are beginning to change and once this state gets a correction in rural housing book, you will see a substantial sudden dip to the net NPA that can happen. As otherwise, this is not the level that is expected to be kept for this book and Maharashtra needs a correction. I don't know if Anuj is in the call. Anuj, you want to explain a little more.
- Anuj:** No, I agree with what you are saying that it is our dependence on one state and the good news is at least in the last quarter, we saw that state also improving and the cash flows improved, rural cash flows everywhere improved including in Maharashtra, but for the COVID resurgence in the first quarter we would have continued to see an improvement in that and if this improvement continue further, I see no reason why we can't bring the situation under control.
- Umang Shah:** Can I just squeeze in one clarification from Vivek?
- Ramesh Iyer:** Yes, quickly.
- Umang Shah:** Vivek, you mentioned that 37,000 odd contracts have not made any payment in 4Q, so to assume that these are the guys who haven't paid anything since the beginning of the moratorium, right?
- Vivek Karve:** You are right.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Kunal Shah for closing comments.
- Kunal Shah:** Yes, thanks a lot the entire senior management team of Mahindra Finance for sharing your insights and perspective and clarifying all the questions and thanks to all the participants for being there on the call. Thank you and have a good day.
- Vivek Karve:** Thank you Kunal for hosting us. Thank you so much.
- Moderator:** Thank you very much. On behalf of ICICI Securities Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.